

**Exhibit 4**

# AKERS: Eastern and how livestock industry works

By Jim Akers,  
Chief Operating Officer  
Blue Grass Livestock Marketing Group

The failure of Eastern Livestock, arguably the largest cattle dealer in the country, has caused many people to ask questions about how the marketing system works and what protections are in place for farmers and ranchers as they sell.

It is important to remember that not a single farmer or rancher lost a penny in this whole scenario if they did their business through a licensed and bonded livestock auction market.

This is confusing for some considering the fact that the farmers in Edmonton lost all their money delivering cattle to the Edmonton facility.

I hope to clarify many of these questions and provide those of you with questions with information that will help put your mind at ease.

Let's start with the Edmonton situation. Edmonton was operated as a buying station by Eastern; it was not an auction and there was no competitive bidding taking place. Because of this the facility did not have its own bond and did not operate a custodial account.

When that "sale" took place on Nov. 2 those cattle and those producers became part of the pool with everybody else. There are some specifics about the Edmonton situation that may sort them back out as the case moves along, namely when were Eastern's accounts frozen, who knew and when were they informed.

Broker/Dealers and livestock auc-

tion markets are required by federal law to maintain a bond. The bond is intended to be an insurance policy for the sellers in the event of financial failure of the business.

The bonding requirements in the Packers and Stockyards Act is based on a formula that by design reserves an amount equal to 10 percent of the total amount of business over a two day period of time. No bonds are sufficient to cover a total collapse where there is no ability to collect on the livestock sold.

What makes the situation very different for customers doing business with an auction market is the custodial account. The Packers and Stockyards Act requires, "Market agencies that sell livestock on a commission basis must establish and maintain a separate bank account designated "Custodial Account for Shipper's Proceeds" for the benefit of livestock sellers."

Broker/dealers do not maintain custodial accounts making it very difficult for the Packers and Stockyards Administration to audit their activities. The custodial accounts of livestock auction markets are audited on a regular basis and those businesses are required to file an annual report with P&S.

Brokers/dealers are required to file the annual report, which reports the total amount of business volume along with financial information about the business as a whole. Over the past several years there have been several

(See Akers, next page)

## Food & Farm File

By ALAN GUEBERT  
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### Let there be light

A Dec. 28, 2010 *Wall Street Journal* story laments the "near-halt" of pork belly trading at the Chicago Mercantile Exchange. Bellies were "once among the CME's most-traded commodities," but now "the pork belly is in danger of going belly-up."

Indeed, only six belly contracts traded in Nov. 2010. Why? Two chief reasons, say experts cited by the newspaper.

First, belly contracts can still be "settled"—fulfilled—by delivery of 40,000 pounds of bacon. Nearly all commodity contracts worldwide are now settled in cash and the threat of 20 tons of frozen pork landing in your office deters traders.

The other reason is the disappearance of the bacon "seasonal," the usually profitable buy-in-the-winter, sell-in-the-summer trading strategy that belly traders banked on for decades. Today, bacon demand is heavy year-around so the death of the bacon seasonal now underwrites the death of belly trading.

Both explanations are accurate insofar as they go, but there's a far bigger, far simpler reason why belly trading is going the way of buggy whips: you don't need to trade bellies if you own the pig from the farrowing crate to the meat case.

Today's nearly perfectly integrated hog sector skips over the risk of owning unpriced bellies because 90 out of every 100 hogs are produced and sold under contract either by or to packers. In short, if the pig is priced before it's born, why hedge its bacon?

The answer is you wouldn't because its slaughter price, the biggest upfront risk to the packer, is locked in from its first breath.

For all its rooting around, the *Journal* piece does cite some important consequences of today's nearly extinct belly trading.

For example, "Retail bacon prices in November surged 34 percent from a year earlier to \$4.697 per pound, making it more expensive than pork chops, according to the Bureau of Labor Statistics."

Golly, up really is down—eating high off the hog is cheaper than eating low on the hog—when a few giants control the production, pack-

ing and distribution of pork outside open, transparent markets.

Moreover, the *Journal* continues, "(S)pot [belly] prices have soared 45 percent from June to an all-time high of \$1.60 a pound in September, before tumbling back to a low of 88 cents by late October. Now they fetch around 96 cents."

Again, the clear lack of a clear market with clearly reported prices often sets the table for dramatic, mostly inexplicable, price moves.

Or, as the *Journal* notes in a classic understatement, "Without a viable hedging tool for belly prices, bacon producers—and consumers—can be subject to price fluctuations."

Again, the *Journal* sees the trees but misses the forest.

Its "bacon producers" (we once called these folks hog farmers, now they're contract pork producers) are the force behind both the demise of belly futures and the rise of "price fluctuations." When nine out of 10 hogs are sold in the dark, it's impossible to see what's moving the market.

All this might be news to reporters high above Chicago's Wacker Drive but none of it is new to folks in the barn. Thin markets are easily manipulated and markets easily manipulated are markets begging for new oversight.

That's why Congress, in the 2008 Farm Bill, mandated the U.S. Department of Agriculture, through GIPSA, the Grain Inspection, Packers and Stockyards Administration, to shine new lights on the nation's ever darkening, packer-dominated livestock markets. The Bacon Boys, however, are fighting the proposed rules; they love the very profitable dark.

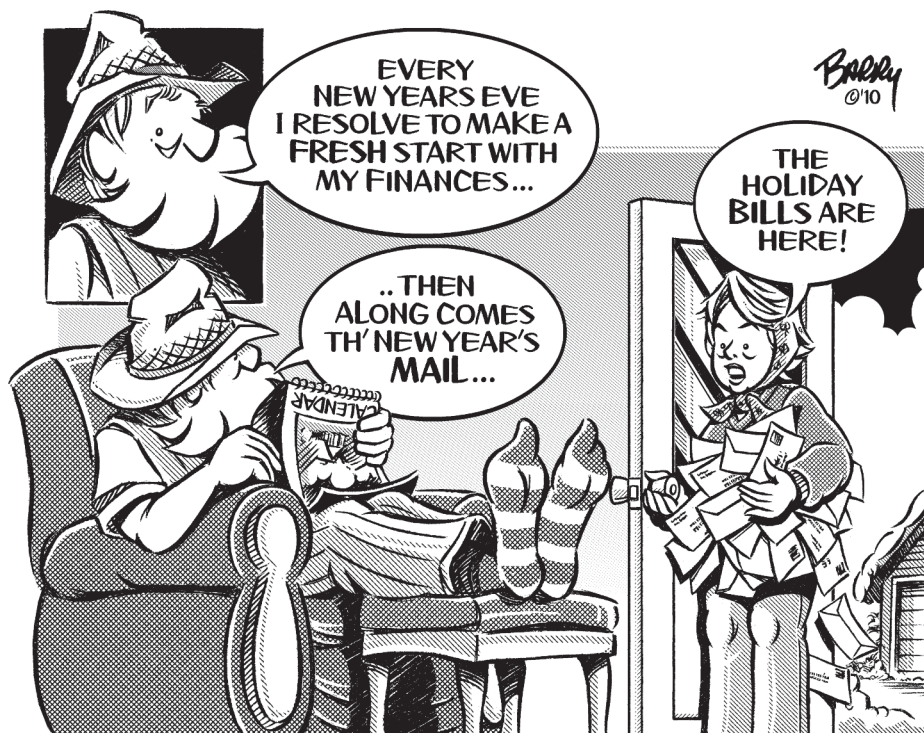
And what about you; you like sow belly selling for \$4.70 a pound?

Well, grab a light—an email will do—and tell you congressional reps to support the proposed GIPSA rules.

That's right; you can save your bacon.

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(Opinions expressed in this column are those of the author and do not necessarily reflect the opinions of this newspaper.)





# AKERS: Eastern and how livestock industry works

(Continued from page 5) situations where big broker/dealers have gone down and hurt many markets, farmers and ranchers in the process i.e. George Young, John Morgan and Eastern Livestock.

During this same period of time there have been very few instances where an auction market failed and hurt anyone. Most of the time when an auction market fails it is because they are acting as a dealer as well and that is what brings them down.

The custodial account is the most important safeguard for the producer of livestock and works in the following manner. It must be a completely separate account from all operating activities of the business. All proceeds from the sale of livestock are collected into the account and all payables resulting from the sale of the animals are written from the account.

Those payments coming out of the account include the payments to the consignor, veterinary services that may have been provided at the market, payment to truckers that hauled the

animals, livestock insurance premiums and finally to the market for their commission.

This system creates a very tight set of records making it easy for the regulatory authorities to conduct audits and track transactions.

All the charges that come out of a custodial account must be filed with and approved by the P&S Administration and are required to be posted for public viewing in the business. The P&S Act also provides very stringent guidelines on when payment is to be made.

An auction market is required to maintain enough available cash or lines of credit to cover every outstanding check that has been written on that account at all times.

There are many different scenarios under which cattle are purchased in Kentucky. The safest for the farmer is when they take their animals to an auction market.

There are some markets that allow their field people to buy cattle from producers on the farm and then take them to market and sell them. Depending on

how that payment occurs it may or may not be protected.

There are many other dealers who simply roam the country side buying cattle right off the farm. The vast majority of these people have bonds of \$10,000 or less and many of them operate off of a float on their money, very risky.

The concept of "the float" is another piece of the business that many people don't understand. Current banking practice and stricter payment policy at markets is making it more difficult for the "traders" to operate a float.

A "float" is basically doing business with somebody else's money. Traders will buy in one location and sell at another on the same day or over a very short period of time. They receive an immediate check for the stock they sell in auctions because the market is required to pay them immediately, just like a farmer.

They wait as long as they can to pay the market or farmer who they purchase livestock from. Many times these dealers may operate in several different markets over a week and hope-

fully end up selling their animals for a profit at some point in the movement.

You would be surprised at the number of dealers who finance their operations with a "float" and virtually no credit at all. These people are very risky because if something happens that stops them from keeping the money moving they crash very quickly.

Eastern was a very good terminal market for many of these traders and their demise has put many of them in real danger of crashing. If you have been selling your cattle directly off the farm to anyone, make them prove to you that they are financially strong enough to write you a check on the spot and confirm that the check is good before you let your animals leave the farm.

The bottom line for producers is this. The government cannot make your business good in the current structure. You have to know who you are doing business with and do it in a way that you protect yourself.

It is OK and in fact prudent to ask the person or business, who you sell your livestock with, to tell you what protections they have in place for you. I have never understood a person that would work for an entire year and then turn around and let a person that they fundamentally don't trust or in some cases don't even know drive off with their livestock without payment for them.

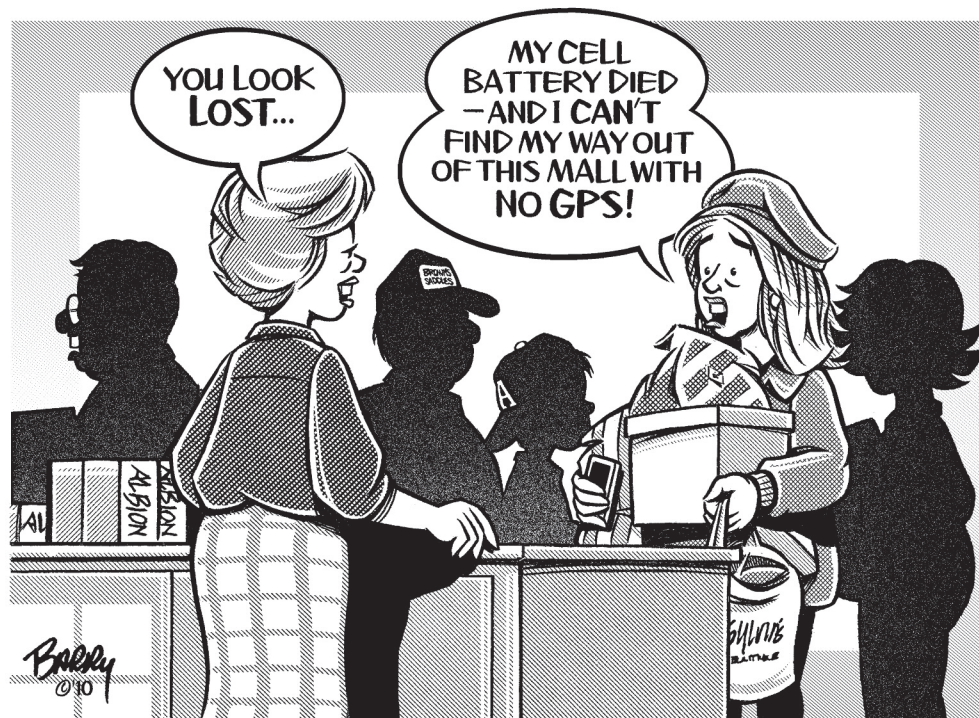
Finally, there have been many questions relative to the Blue Grass operations and what relationship we had with Eastern

Livestock. Eastern Livestock did not and does not own any portion of any of the Blue Grass operations.

Thomas Gibson does personally own a small portion of stock in our companies but in the process of going through his personal bankruptcy that stock will be liquidated.

In closing, I challenge everyone to be diligent and do your homework. Talk to your local auction market operator and ask about how they work to protect your business.

Be wary and very careful if you decide to do business on your own in any format other than consigning your animals to a licensed and bonded livestock auction market. Remember, the farmers and ranchers that did this did not lose a penny when Eastern collapsed.



## 2011 Kentucky Small Ruminant Grazing CONFERENCE

**Saturday, Jan. 15<sup>th</sup>**

**Hardin County Extension Office • Elizabethtown, Ky.**

**201 Peterson Drive • Elizabethtown**

9 a.m.	Welcome - Dr. David Ditsch
<b>Grazing Management</b>	
9:15 a.m.	Using Annual Forage Species for Grazing - Dr. Ray Smith
10 a.m.	Endophyte Infected Tall Fescue: Do we have a problem? Dr. Glen Aiken
10:30 a.m.	Break
10:45 a.m.	Characterizing the parasites challenge of meat goats grazing summer pastures in western Maryland - Susan Schoenian
<b>Producer Presentations</b>	
11:30 a.m.	Predator Control for Sheep and Goat Production: The Berea College Experience - Dr. Neil Douglas
12 p.m.	Lunch
1 p.m.	From IBM to Goat Production - Mr. Barry Arnett
1:30 p.m.	Sheep Production - Dr. Diane Hellwig, DVM
2 p.m.	Break
<b>Economics/Marketing Outlook</b>	
2:15 p.m.	Sheep and Goat Marketing for 2011 - Tess Caudill
<b>Parasite Management</b>	
2:45 p.m.	A Five Point Evaluation System for De-worming Decision Making - Dr. Michelle Bilderback, DVM
3:10 p.m.	FAMACHA Training - Dr. Ken Andries, (optional cost \$10)

For more information, contact:

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E-mail: [dditsch@uky.edu](mailto:dditsch@uky.edu) • Website: [www2.ca.uky.edu/rcars](http://www2.ca.uky.edu/rcars)

Please complete form for each person attending:

Name: \_\_\_\_\_  
Organization: \_\_\_\_\_  
Address: \_\_\_\_\_  
City, St., Zip: \_\_\_\_\_  
Phone: \_\_\_\_\_  
E-mail: \_\_\_\_\_

**Mail completed registration form by Jan. 7<sup>th</sup> with payment to:**  
University of Kentucky  
UK Robinson Center  
Attn: Jackie Allen  
130 Robinson Road  
Jackson, KY 41339